

**Growth**

↑ The third estimate of Q4 GDP came in at 2.1%, up from the previous estimate of 1.9%. We expect the U.S. economy will expand around 2.2% or slightly higher in 2017.

**Jobs**

↑ The March employment report was weaker than expected, with the economy adding 98,000 jobs over the course of the month vs. 180,000 expected.

→ The unemployment rate fell slightly to 4.5% while the labor participation rate remained steady at 63%.

**Inflation**

↑ Headline CPI increased 2.8% year over year in February.

↑ Core CPI increased 2.2% year over year.

**Leading Indicators**

↑ The US LEI increased 0.6% in February to 126.2, on the back of a 0.6% increase in January.

**Rates**

↑ The Fed increased short-term interest rates by 0.25% to a range of 0.75% to 1.00% in March.

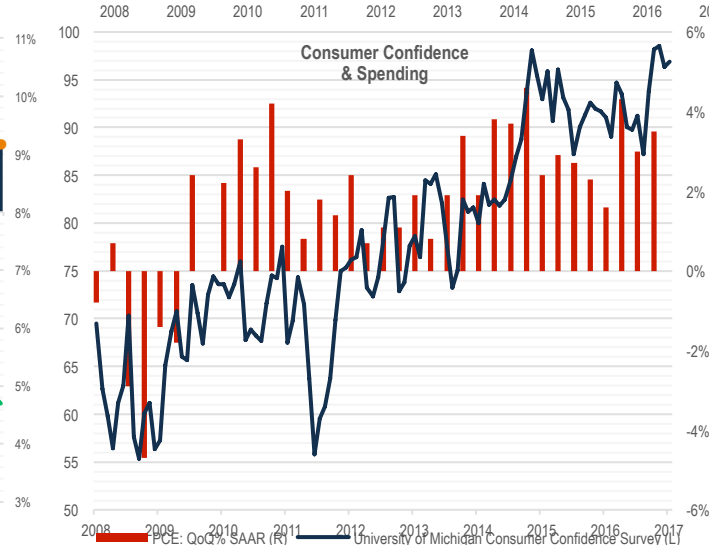
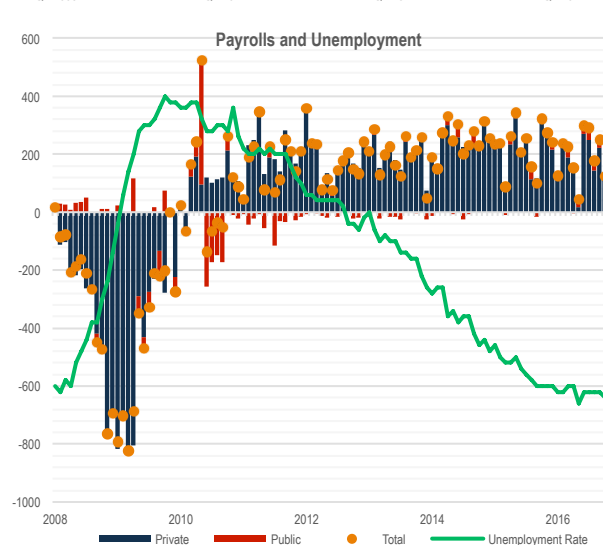
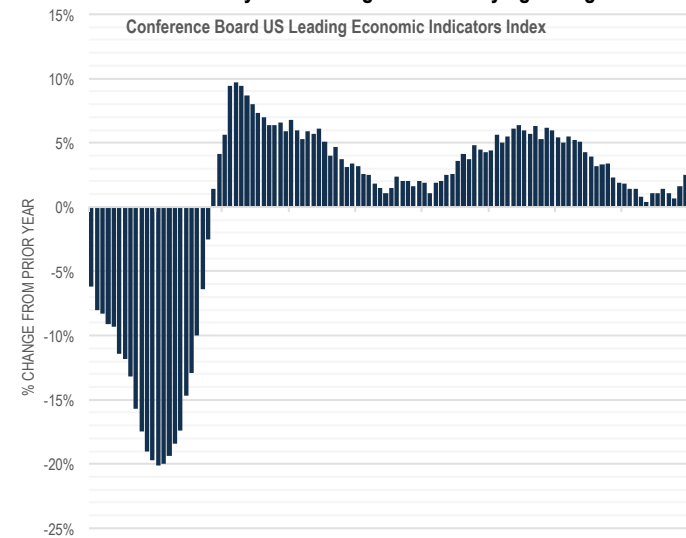
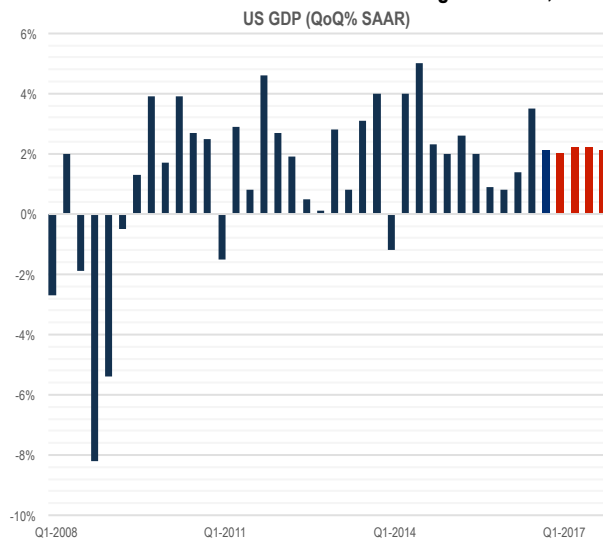
↑ As long as the economic data continues to be strong a few more rate hikes are likely in 2017.

**Uncertainties**

- Billions of sovereign bonds trading in negative territory globally.
- Equity and fixed income valuations are at the high end of the historical range, especially in the United States.
- Fiscal policy uncertainty abounds under the Trump administration, which has led to an uptick inflation expectations.

**Key Takeaways**

- Domestic equity markets experienced a slight pullback in March, largely driven but uncertainty in Washington.
- International equity markets were strong performers for the month, with developed markets up 2.75% and emerging markets up 2.52%.
- Fixed-income markets were mixed during the month, with the yield on the 10-Year Treasury Note trading within a fairly tight range.





**Stock Market**

- Domestic equity markets were mixed in March, as the Republican failure to even bring their healthcare reform bill to a vote increased doubt among market participants that the Trump administration will be able to successfully deliver on campaign promises. The S&P 500 was up 0.12%, resulting in a YTD return of 6.07%.
- The Russell 2000 Index of small cap stocks was up 0.13%, bringing YTD total return to 2.47%. After a strong run to finish 2016 as the best performer, small caps are lagging in 2017.
- International equity markets outperformed their domestic peers both in March and YTD.
- The MSCI EAFE Index, which measures developed markets performance, gained 2.75% and is up 7.25% YTD.
- Emerging markets posted stronger results than international developed, with a gain of +2.52% for the MSCI Emerging Markets Index, which is now up +5.47% YTD.
- The estimated earnings growth for Q1 2017 is 8.9 % for the S&P 500.

**Bond Market**

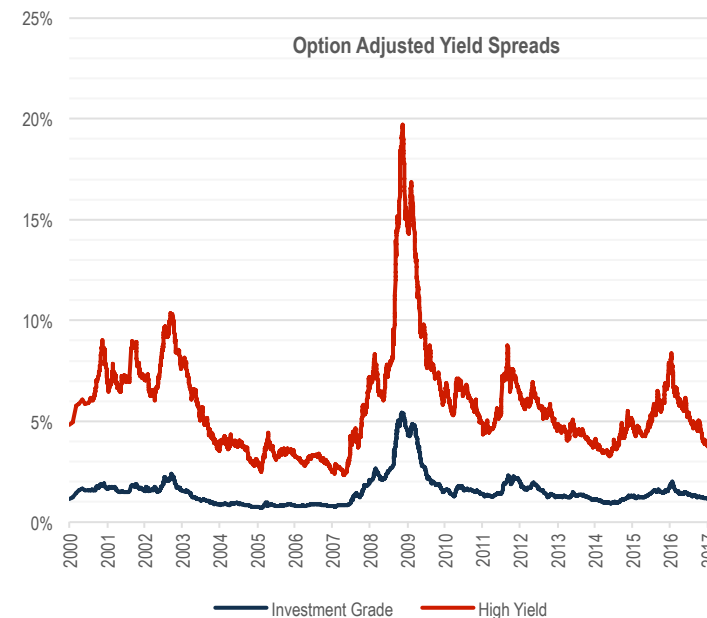
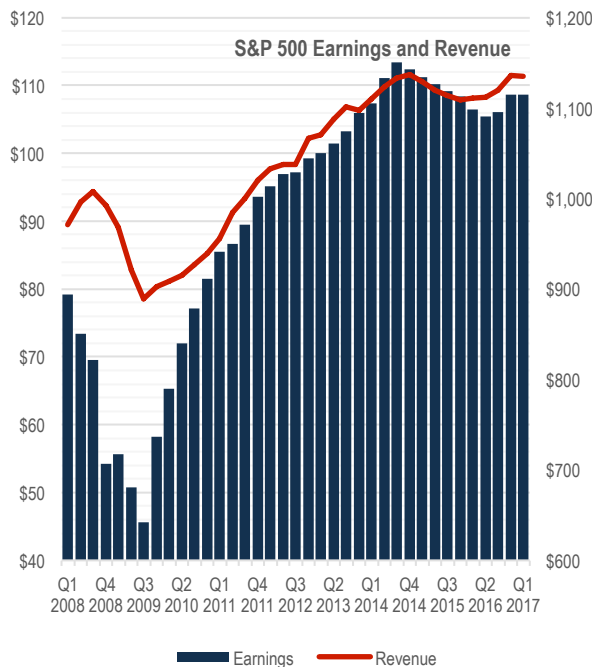
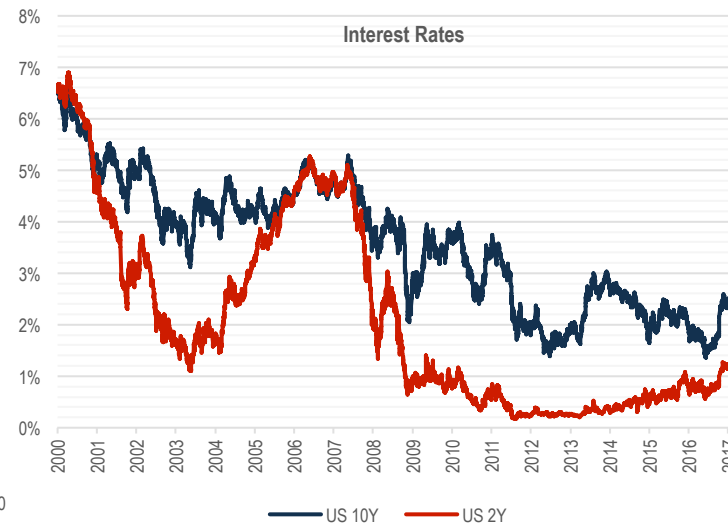
- Fixed-income markets were mixed for the month, with the yield on the 10-Year Treasury Note trading within a fairly tight range.
- The yield on the 10-year U.S. Treasury Note ended the month at 2.42%, up 5 basis points from 2.37% at the end of February.
- Broad-based fixed income fell slightly, with the Barclays U.S. Aggregate Bond Index declining 0.05%.
- The Barclays U.S. Corporate High Yield Index fell 0.22%.
- The Barclays Municipal Bond Index gained 0.22% for March.

**Alternatives**

- Hedge funds extended recent gains in March. The HFRI Equity Hedge index is up 2.61% YTD.
- Event-Driven Strategies, as measured by the HFRI Event-Driven Index, returned 2.66%.
- Commodities as measured by the Bloomberg commodity Index, have fallen 2.47% YTD.

**Index Returns  
As of 3/31/2017**

	1 Mo.	YTD	1 Year	3 Year
MSCI ACWI	1.22	6.91	15.04	5.08
S&P 500	0.12	6.07	17.17	10.37
DJIA	-0.60	5.19	19.91	10.61
MSCI EAFE	2.75	7.25	11.67	0.50
MSCI EM	2.52	11.45	17.22	1.18
BarCap US Agg	-0.05	0.82	0.44	2.68
BarCap US Treasury	-0.05	0.67	-1.44	2.07
BarCap Inter. Govt/ Credit	0.03	0.76	0.40	2.03
BarCap Muni	0.22	1.58	0.15	3.55



**Equities**

**Outlook**

- The election of Donald Trump brings with it promises of fiscal stimulus, which should be positive for earnings growth in the short run. While we don't expect further multiple expansion, increased earnings can continue to propel the market higher.
- While the market may always surprise, we are predicting flat to low single digit returns in US equity markets. We also expect substantial increase in volatility compared to the market environment experienced over the past 5 years.

**Our Allocation**

- We reduced our underweight on U.S. Equities (-2.5% under the strategic allocation of 69%).
- In the U.S., we moved to neutral in Large Cap (0% under the strategic allocation of 58.9%) and moved to neutral in SMID (0% under the strategic allocation of 10.10%). We continue to have a tilt towards stocks that produce high quality dividend payments.
- For Developed International equities, we moved to neutral (0% over the strategic allocation of 23.5%). We moved to neutral in Emerging Markets as well (0% over the strategic allocation of 7.5%).

Underweight	Neutral	Overweight
Large Cap Value	Large Cap Growth SMID Developed International Emerging Markets	Specialty Equity

**Fixed Income**

Underweight	Neutral	Overweight
International Emerging Markets		Core Low Duration High Yield

**Outlook**

- We expect returns to be roughly flat or in the low-single digits for 2017. Now that the Fed has embarked on a tightening cycle, the pace of tightening will be crucial for fixed income markets. Inflation will be the key metric to watch; should inflation overshoot to the upside, the pace of tightening could be much faster than the market is currently anticipating, but several interest rate hikes are expected in 2017.

**Our Allocation**

- We are overweight Core Fixed Income (+5.5% over the strategic allocation of 64.5%) and overweight Low Duration (+5% over the strategic allocation of 0.00%)
- For High Yield, we are overweight (+14.0% over the strategic allocation of 6.00%)
- For International Fixed Income, we are underweight Developed International (-11.4% under the strategic allocation of 16.4%) and underweight Emerging Markets (-13.10% under the strategic allocation of 13.10%)

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**Alternatives**

**Outlook**

- Liquid alternatives positioning is designed to reduce risk by taking advantage of the asset class's low correlation to more traditional stock and bond allocations. Designed to mitigate risk, many of these strategies can boost performance when markets are either volatile or falling.
- Through the mid-February market pullback, the need for liquid alternatives and downside protection was apparent. In reviewing 2008 (the most-recent and longer period of volatility), the MRFX Merger Arbitrage Index was up 3.7%, and the HFRX Absolute Return Index declined -13%, compared to a -37% drop in the S&P 500. In a challenging market environment, we expect an alternatives exposure to outperform by improving the portfolios' risk profile and greatly increasing its diversification.

**Our Allocation**

- We are overweight Core Diversifiers (+7.14% over the strategic allocation of 50%) and underweight Specialty Alternatives (-7.14% under the strategic allocation of 50%)

Underweight	Neutral	Overweight
Specialty Alternatives		Core Diversifiers

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Equity Index Returns: All data represents total return including the reinvestment of dividends for stated period. MSCI-ACWI: Morgan Stanley All Country World Index; S&P 500: Standard and Poor's 500 largest market cap companies; DJIA: Dow Jones Industrial Average; MSCI-EAFE: Morgan Stanley Capital International-Europe, Australia & Far East; MSCI-EM: Morgan Stanley Capital Emerging Markets. All data obtained from Morningstar Direct.

Equity Index Values: Reflects closing price level for each index as of stated date. All data obtained from Morningstar Direct.

Fixed Income Index Returns: BarCap: Barclays Capital. All data obtained from Morningstar Direct.

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